UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
Washington, D. C.

KEEPING OUR MARKETS FOR COTTON

Address of Henry A. Wallace, Secretary of Agriculture, before a meeting of farmers sponsored by the Arkansas Farm Bureau Federation, Arkansas State Grange, Arkansas Farmers' Union, and Little Rock Chamber of Commerce, at Little Rock, Ark., at 10:30 a.m. (CST), Friday, May 26, 1939, and broadcast as part of the National Farm and Home Program, by NBC and 104 associated radio stations.

May I say in the beginning that I am happy to be in Arkansas again. All of us in Washington have the highest regard for this state. Few men of the stature of Joe Robinson will ever work among us. You are admirably represented now, among others, by Senator Caraway and Senator Miller, and by Representative Terry, from this District. They are extremely valuable in the Federal scene. Here in the State you have Governor Bailey with whom I have just had a most pleasant visit. Yes, we hold high regard for Arkansas. We are always happy to come here.

I am talking today not only to this splendid audience of cotton farmers but also to that great unseen audience, the Farm and Home Hour listeners. I propose, therefore, to talk about the importance of cotton to the whole nation as well as to the cotton farmers. Before the World War cotton farmers received three percent of the national income. Last year, even with benefit payments added in, they received only 1.4 percent. There are a million more people living on the cotton farms of the South today than before the War. They have to buy more in the way of fertilizers, farm machinery and poison for insect pests, and they have less left over at the end of the year after they have paid for their furnishings. High tariffs on manufactured products, discriminatory freight rates and the price-determining powers of the great corporations have combined to put cotton into a more difficult situation than any other major farm product except possibly wheat.

In 1931 and 1932 when cotton farmers received less than one percent of the national income, the situation seemed hopeless. Hundreds of thousands of unwanted people had come back to the cotton farms when the factories shut down in the great cities. The soil was washing away. Misery was everywhere.

Then it was that the cotton farmers began to realize more clearly than ever before their kinship with the wheat and corn farmers. In May of 1933 the President of the United States signed a bill recognizing, for the first time, the unity of agriculture. Henceforth it will be impossible to think about the problem of anyone of the great export crops by itself. Wheat and corn farmers are genuinely interested in the cotton problem because they know if vested interests destroy the cotton program, it will not be long until corn and wheat also are in the most serious trouble. The great export crops tend to go up

and down together. Moreover the great export crops set the pace for prosperity and depression in the industrial centers.

The world agricultural situation was exceedingly bad after 1930. Since that time every nation in the world has found it necessary to take special action to help its farmers. American farm income in 1932 had sunk to one-third as much as it should have been to put the American farmer on a basis of historical parity with his city brother. To meet the desperate situation prevailing in 1932 the farmers obtained federal powers enabling them to raise their income to a fairer relationship with national income. They recognized that as long as we were a creditor nation with high tariffs, we could not sell such a large volume of surplus products abroad and expect to get a satisfactory price.

To meet these changed world conditions we have built a unified program for agriculture which:

First - accepts parity income for the farmer as the goal.
Second - builds the soil.
Third - adjusts production to help soil conservation on the one hand and to prevent burdensome supplies on the other.
Fourth - works for increased consumption at home.
Fifth - stands for American agriculture's fair share of the world markets.
Sixth - sets up an ever normal granary or warehouse to balance the years of good weather against the years of bad weather.

Cotton farmers, wheat farmers, dairy farmers, livestock farmers and fruit farmers believe in these objectives. That is why the Senate voted 65 to 14 to appropriate $225,000,000 for parity payments and $113,000,000 for surplus disposal payments. That is why the House last Tuesday in effect upheld the Senate. Yes, out of the experience of the last six years the farmers of this nation have learned to work together. The beginning of wisdom in solving the cotton problem is to remember that it cannot be solved except in cooperation with agriculture as a whole.

Without forgetting for a minute the ties which bind cotton to the rest of agriculture in the United States, we must remember that cotton has been hit to an unusual degree by actions taken in certain European countries. One of these countries is taking only one-sixth as much cotton as it did a few years ago. During the current year our cotton exports will be around three and one-half million bales or the lowest in 60 years. Because of the low volume of exports, the carryover of American cotton is building up day by day with the probability that on next August 1, it will be 14 million bales or a record high.

Most of you know why this situation has come about.

In 1933, we set out to reduce our surplus of cotton. By 1936 the thirteen million bales on hand in 1932 were reduced by approximately one-half and to almost normal proportions. But something happened in 1936. The original Triple-A program was killed. Up until that time the cotton program, financed by the processing tax, had just about paid its own way.

Without effective control, farmers planted more cotton. In 1937 an avalanche of cotton -- 19 million bales -- descended upon us, and, so far as our supply was concerned, it carried us back to 1932. The rest of the world also grew a record crop. Had it not been for that 1937 harvest, the cotton loans of '37 and '38 would not have been price pegging loans. We would not have 11,400,000 bales of cotton in the loan and our cotton would be flowing freely into export trade.

Obviously, there was but one thing to do after that 19 million bale crop -- begin the task of adjusting supplies all over again. Congress gave us a new surplus control act in 1938. If we use this act in the right way, we can within a few years make an ordinary hill out of our great cotton mountain.

Cotton is an export crop. If a cotton loan is above the competitive world market price, it is almost certain to interfere with exports. Indian cotton, from the price standpoint, has been a better buy this season than American cotton. So has Brazilian cotton and so has other cotton.

American cotton farmers this year would have an income as low as that of 1932 if it were not for the benefits payments and the loan. But while the loan rate has helped American farmers this season it has held our price higher than the world price. Therefore our cotton does not flow freely into world markets and our surplus increases. The carrying charge on the government loan cotton is 45 million dollars a year. The existence of the loan stock causes uncertainty and holds down the world price. We must reduce the loan stock if we are to adjust our supplies and have order in the industry.

We should add too that no considerable further reduction in cotton acreage can be recommended. Taking more acres out of production might keep the surplus down but only at the cost of misery for many of the people now dependent on cotton for a living. Farmers on the land, workers in gins, shippers, and all the other interests concerned with this complex empire of cotton would feel the pinch if acreage were reduced much further. Not only these, but also our friends in other sections of the country say they would feel the pinch if acres now given to cotton were used for growing the crops that means so much to the other sections. I am not convinced that this fear is well founded, but I do know that it is a genuine fear. No, I think we must plan for a normal annual crop of around 12 million bales. I should not like to ask our cotton farmers to plant less than 27 million acres. Of course, it may be that eventually either European chaos or the world-wide use of substitute fibers will make it necessary to plant less than 20 million acres of cotton annually in the South but I do not see now and I hope we shall never see the necessity of such a drastic reduction in cotton acreage.

What shall we do about the cotton problem as we find it today?

First, let us continue the cotton loan. The real reason for a loan on cotton is to protect the growers of cotton. There is no doubt that our cotton loans have done just that. Loans on cotton -- as on other commodities -- have under existing conditions a definite place in this program. If we did away with the loan program the price of all our cotton, both

that sold at home and that sold abroad, would immediately go down. It might go down two or three cents a pound. Assuming a 12 million bale crop in 1939, this would mean a loss of from 120 to 180 million dollars in cotton farmers' income.

Southern cotton farmers are not getting nearly enough for their crop as it is. In justice to them I do not believe anyone should try to do away with the loan program for cotton. I am certain we should keep that program unless Congress is prepared to compensate producers for the drop in price that would follow abolition of the loan. Without a processing tax or some other practical way to raise more money, there is no chance to give them that compensation.

Second, let us continue benefit payments for production adjustment and soil conservation. The average annual cotton income under the agricultural adjustment program has been much greater than it was in 1932. The adjustment program should be continued to reach and maintain parity of income for farmers and to preserve our soil.

Third, let us continue vigorously and thoughtfully to expand the domestic consumption of cotton. The consumption of cotton goods in our own country is far lower than it ought to be because the families who need these goods most can not afford to buy them. A study covering 300,000 families was recently made of this subject and preliminary figures are now available.

They indicate that families with incomes of $5,000 and over spend nearly eight times as much money for cotton goods as families with incomes of less than $500 are able to spend.

If the 20 million families getting less than $2,000 a year spent as much for cotton goods as those getting between $2,000 and $3,000 a year, the cotton farmer would have a home outlet for an additional two million bales of cotton. Such a situation would add over half a billion dollars a year to the income of the cotton South, of which part would go to the cotton farmer and part would go to employ people in our cotton mills, on our railroads, and in our wholesale and retail dry goods stores throughout the country.

People having the lowest incomes buy the heavier kinds of cotton goods first. This is because they need mattresses, comforters, blankets, sheets, towels, overalls, and piece goods from which they can make clothes for their children. If they bought such items as these, approximately 20 cents out of every dollar spent would go directly to the cotton farmer; roughly 50 cents out of every dollar would cover the cost of manufacturing, most of which would go to employ labor in our cotton mills; and about 30 cents out of every dollar would cover the cost of transportation and merchandising in our wholesale and retail dry goods stores.

This is not a complete solution for the cotton problem, of course, but I feel as strongly as I did at Fort Worth last fall that the nation ought to find ways and means of turning its abundance of raw cotton into a greater abundance of cotton goods for our own people.

If the Stamp Plan for surplus foods proves successful, we may try a slight variation of this plan to move cotton goods to our low-income families. Satisfactory arrangements undoubtedly can be worked out with our retail dry goods people. An experiment conducted along these lines in a few cities for a year would teach us a great deal about what we could expect on this front. We want to know from actual experience just how effective such a program would be. Meanwhile, however, we are under an obligation to protect cotton markets and cotton income.

As the fourth point in this cotton program, let us regain and hold our fair share of the world exports of cotton. As I have said over and over in talks on the subject of cotton -- at Memphis in September 1937, at Fort Worth in September 1938, and at Macon in November 1938 -- we must look to volume as well as price if we are to have a good income. We must keep not only our domestic market but also our foreign market.

The foreign market for cotton normally has meant about one-half billion dollars a year to the American farmer, to say nothing of the business and employment it has given the gins, the cotton trade, the banks, the merchants, the railroads, the exporters, and the steamship lines. In the past, more than half the American cotton producer's crop has gone to other countries. I do not believe you want to give up that foreign market without fighting to keep it any more than any commercial firm would want to let its competitors take half its business.

The South simply cannot afford to lose its export market for cotton.

Neither can the rest of the country afford such a loss. Destruction of the South's buying power means idle factories, unemployment and destitution in the industrial areas. Every part of our country will lose if we lose our export market for cotton -- every part will gain if we keep that market.

The problem of maintaining exports is both a long-term and an immediate problem.

I think that the long-run solution must include an agreement among the cotton producing nations of the world on sharing the world market. Great gains have been made through the reciprocal trade program toward reaching international understanding in the exchange of many commodities. American farmers have been helped by the reciprocal trade program. The American farmer needs more than the American market. Agriculture is largely on an export basis; and cotton especially, with its large surplus production, has an immense stake in the restoration of our foreign trade. Despite innumerable handicaps, literally hundreds of destructive trade barriers have been lowered or removed through our reciprocal trade program. When anyone tells you that Americans are losing income as a result of trade with other countries, ask for proof. Also ask what cotton producers would do if half their normal market were sacrificed.

Great gains would result from an international agreement on cotton to assure each country its fair share of the export market and to support a reasonable level of world prices. With these ends in mind, we have proposed an international conference on cotton. I am happy to announce here for the

first time that our Department of State has now received favorable responses from the governments of all the important cotton exporting nations. This word has reached me since I left Washington. These nations are receptive to a preliminary meeting to explore the possibility of working out a world cotton agreement. The United States will now proceed immediately to invite the various governments to send representatives to Washington for these preliminary discussions. We hope these discussions can be held in the late summer or early fall. Certainly the interests of all of us will be served by an agreement among the nations.

Both an international agreement on cotton and the reciprocal trade program are exceedingly important for the long run. Our immediate and imperative problem, however, is to maintain our fair share of cotton exports. With the world trade disorganized, as it now is, with some of the cotton buying nations taking only one-sixth as much cotton from us as formerly, we must adjust our export price to a level that will be fully competitive in the world market at all times.

President Roosevelt, on March 28, proposed the only practical, immediate solution for this emergency. Exporters would be paid the amount necessary to allow them to export cotton at the world price without a loss. The price of cotton at home would remain protected regardless of what happened to the prices on sales abroad.

This is the cheapest practical way for the Government to reduce the cotton surplus. One alternative which has been proposed would be to pay farmers to keep their cotton out of the loan. To do so probably would result in a drop of at least 2 cents a pound. With a crop of 12 million bales, an extra 120 million dollars over and above the 200 million dollars already appropriated for the 1939 cotton program would have to be raised for cotton alone. There is no likelihood that Congress will appropriate 120 million more for the 1939 program. Some of the men who propose to pay farmers to keep their cotton out of the loan are asking the impossible in order to destroy the possible.

Let me repeat, the President's export subsidy plan would offset the loan by payment on our exports sufficient to make American cotton as competitive with foreign cotton as our present supplies warrant. It would mean that we are going to do everything in our power, with regard for the total national economy, to maintain our fair share of the world cotton market.

Last fall I did not feel that export subsidy payments would be necessary in the case of cotton. I stated my views in this connection in a talk at Fort Worth. Since that time conditions have changed. There was no clear evidence last fall that the 8.3 cent loan would interfere with the flow of cotton into export channels. At that time there were only about 7 million bales of cotton in the loan and exports were moving at a rate near normal. As a matter of fact, some of the gentlemen who now say the 8.3 cent loan is too high were imploring us last September to increase the loan to 15 cents. So much cotton is now in the loan there is very little cotton that is free to move into export channels. Exports are at a very low level and have been for several months. It appears now

that if we are to keep the loan, action must be taken to offset its effect on our export market.

We want the loan to protect price. We want increased exports. We propose to get both at the minimum cost to the government.

Our experience with wheat leads us to believe that an export plan will work for cotton. In the absence of the wheat export plan we probably would have exported less than 35 million bushels of wheat this year. As it is those export sales of wheat from July 1, 1938, to May 16, 1939, totaled 109 million bushels. Of this amount 86,500,000 bushels were subsidized at an average cost of 25 cents a bushel, or a total of about 22 million dollars.

The combined effect of the wheat loan and export program has been to keep the Chicago price of wheat from 15 to 30 cents a bushel above its normal relationship with the Liverpool price. In other words, this program has increased the income of the American wheat farmers at least 70 million dollars for the crop year just coming to an end.

Every dollar taken out of the Federal Treasury for running the export and loan program has meant at least $3 extra in the pockets of the men who raise wheat. Furthermore, the wheat export program has kept unmanageable supplies of wheat from piling up under the wheat loan.

Let's examine this cotton export subsidy proposal in some detail. Is it dumping? No. It would not result in our having a higher percent of the world market than we had in the decade of the 20's or in the period before the World War. Our cotton would sell at competitive but not at throat-cutting prices. It would not mean that we put more bales on the world market than we did in the decade of the 20's. No foreign nation can justly claim that a plan designed to enable us to get and keep from 70 to 100 percent of our former share of the world market is dumping.

Domestic orators, whose hearts bleed for foreign cotton producers, can not expect the United States to subsidize foreign cotton growers by turning our own program into an umbrella to hold over them. We are going to get under that umbrella ourselves. And if our foreign competitors are not willing to come with us under the shelter of an international agreement, all of us are soon likely to find ourselves out in the rain.

Would the plan mean that cotton goods made abroad with cheaper cotton would flow back into the United States in competition with our own manufactures? No. There is already in the existing legislation a provision that can be used to prevent such a backflow of cotton goods. Furthermore, there is possible, under the President's plan, a subsidy on exports of manufactured cotton goods as well as a subsidy on exports of raw cotton. The plan will not let textile manufacturers suffer from imports of cheaper cotton goods nor from disadvantages in the foreign market.

Does the plan mean that our own consumers would be deprived of cotton? No. I have already said emphatically that we are doing, and will continue to do, everything possible to increase domestic consumption of cotton. There is plenty of cotton. The export plan and increased domestic consumption are not opposed to each other, but are both needed in a unified solution of the cotton problem.

There is an argument against the export plan that few of you have heard. Some people representing the cotton textile industry contend that if the President's plan were adopted, the domestic price of cotton would not be cheap enough, even though it's only about half of parity now. One of their spokesmen recently came right out and put it baldly when he told a Senate Committee that "We have got to keep cotton cheap because cotton has got to be consumed."

This statement was made in the face of the fact that the best years for the textile industry and the years when domestic cotton consumption was highest have been years when the price of cotton was comparatively good.

The real issue in this struggle is cheap cotton. Judging from their arguments, some opponents of the subsidy want cheap cotton for the trade, cheap cotton for the domestic mills, cheap cotton for the foreigners, cheap cotton for everybody.

Ask those opposing the export subsidy if the plans they propose would not result in a lower price for all the cotton crop.

The President would like to keep a floor under the price of cotton in this country.

The opposition wants the price to go on down to rock bottom.

Farmers have had some experience with cheap cotton. There is no question what their choice will be.

None of us believes that the solution of the cotton problem is still cheaper cotton.

If the men, women, and children who work in the cotton fields must reduce themselves to a state of poverty to keep the mills supplied with cheap cotton, their future and the future of the cotton-growing South is very dark indeed. What the textile spokesman is proposing is the greatest subsidy of all -- the gift of the South's labor, soil fertility and prosperity.

The cotton industry can not be preserved by making serfs out of the men, women, and children who grow the crop.

The textile industry is protected by a high tariff. This spokesman proposes to withdraw protection from the cotton farmers, but I hear no proposal to reduce the tariff on textiles. He asked for cheaper cotton, but he said nothing about lowering the price of shirts, or dresses, or overalls or the other things that farmers have to buy.

I refuse to believe that a majority in the textile industry wants cheap cotton at the expense of the men, women, and children who bend under a hot sun to produce the crop.

Some of those who oppose the President's plan seem to believe that if only they can prevent any constructive action from being taken in the

present situation, the entire cotton program will break down and then they will be rid of it. They have been trying to destroy this program since it began but they have failed and will fail so long as the program deserves and has farmer support.

Ever since the cotton program began in 1933, members of the cotton trade have been stressing the importance of the export market. They have laid the responsibility for the increase in foreign acreage to the higher prices brought about by the program. Over and over again they have expressed concern about keeping our traditional place in the markets of the world.

Now these same members of the cotton trade show that what they want most is 6 or 7 cent cotton right now, both in this country and abroad.

Their Congressional spokesmen, who have stood steadily for smaller government expenditures, have now proposed the most expensive plan of all those being seriously considered. These spokesmen have proposed appropriations for cotton which would be so much in excess of the current expenditures that when other commodities made their corresponding demands, the total would be so large as to become impossible.

Apparently the real objective of many of these gentlemen is destruction of the entire agricultural program.

As long as we have more than 7 or 8 million bales in the loan and there is no world cotton agreement, we need the subsidy plan.

Another thing is needed for this same purpose and for the total national farm program. In almost every statement I have made on cotton since 1933 I have stressed the importance of a continuing source of revenue for the cotton program. Last fall, once more, I suggested the re-enactment of the cotton processing tax, which proved so useful and practical for the first two and a half years of the crop adjustment act. We need such a source of revenue as badly now as we ever did. Those who propose to pay farmers to keep their cotton out of the loan should be fighting vigorously for a continuing source of revenue to support the program they propose.

Recently a variation of the processing tax plan has been suggested. It is now being widely discussed. I refer to the so-called certificate plan, under which production certificates would be issued to growers. Manufacturers of cotton and importers of cotton products would be required to buy these certificates in order to sell their goods. The certificates would be equal in value to a certain number of cents a pound and the grower could sell them to the manufacturer, either directly or through a pool. This plan would not require funds from the Treasury.

But either the processing tax or the certificate plan will require new legislation. The authority for a cotton export program already exists. It was given by amendments to the Agricultural Adjustment Act, approved in 1935, and also by the Agricultural Adjustment Act of 1938.

Funds which would permit the financing of the cotton export plan have been voted by the United States Senate and final action by both houses of Congress is pending.

May I suggest that no attempt be made to prevent us from exporting our cotton unless our opponents have a plan that is better and can actually be put into operation.

Recently, the Senate refused to suspend its rules to consider Senator Bankhead's proposal for limitations upon the existing authority for an export subsidy. In some quarters, this vote was erroneously hailed as a defeat for the cotton export plan, and as a repudiation of it by the South. But I wish to call your attention to three significant facts in connection with that vote: First, the vote was not on Senator Bankhead's plan itself; second, 21 out of the 32 voting Senators from cotton-growing states voted to suspend the rules; and third, in the debate which preceded the vote, Senator Bankhead pointed out that the authority to subsidize exports of cotton already existed, and the only question was whether limitations should be put on that authority. In a speech at Birmingham on May 13 he reaffirmed that view. Whatever may happen in the future, the export subsidy plan is very much alive today.

Let us resolve to attack the cotton problem with this unified program:

First, by continuing the loan as a protection for the farmer's price for cotton.

Second, by continuing benefit payments to build and protect both incomes and soil resources.

Third, by increasing efforts to expand domestic consumption.

Fourth, by keeping our fair share of the world market -- by an export subsidy program to be changed as soon as practical; and for the long run, by an international agreement on cotton and by increased foreign markets based on the trade agreements program.

Fifth, by bringing farmers a fairer share of the national income through a processing tax, or its equivalent, to serve as a continuing source of revenue.

If anyone should entertain the least doubt that farmers greatly need and desire an increase in their income, let him consider these national figures: Agriculture today has approximately 24 percent of the total population and 30 percent of all children, but only about 11 percent of the national income.

I challenge all those who criticize our unified program, which is based on the past six years of experience, to produce a plan that will do the job as well and at less cost. This program will no doubt be adjusted from time to time. When the surplus is whittled down again to 7 million

bales, when we have had an international conference to share the world cotton trade, when other nations have begun to live and trade in peace, we shall have changes in our program. We may not then need an export subsidy. But as Secretary of Agriculture, I would be derelict in my duty if I let a year of such low cotton exports pass without doing everything possible to raise exports to a minimum of 6 million bales or without striving to protect and increase the income of farmers at a minimum cost to the Treasury. That means an export subsidy program for cotton, just as soon as such a program can be placed in effect.

This unified cotton program fits in with the unified programs for all of American agriculture. The cotton problem is a national problem. Only by solving it can we make sure that the South, which has too long taken the short end, gains its proper share of our national income. Only by solving it can we keep American agriculture as a whole on the road to its well deserved gains.

I believe we can solve it if the farmers have their way, and they will have their way if the facts are known.

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